

VZCZCXRO1877
RR RUEHLN RUEHVK RUEHYG
DE RUEHDBU #1163/01 2281043

ZNR UUUUU ZZH
R 161043Z AUG 07
FM AMEMBASSY DUSHANBE
TO RUEHC/SECSTATE WASHDC 0780
INFO RUCNCIS/CIS COLLECTIVE
RUEAIIA/CIA WASHDC
RUCNDT/USMISSION USUN NEW YORK 1500
RUEHVEN/USMISSION USOSCE 2025
RUEHBS/USEU BRUSSELS 1254
RUEHBUL/AMEMBASSY KABUL 2224
RUEHNE/AMEMBASSY NEW DELHI 2191
RUEHIL/AMEMBASSY ISLAMABAD 2229
RUEHDBU/AMEMBASSY DUSHANBE 2613

UNCLAS SECTION 01 OF 02 DUSHANBE 001163

SIPDIS

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STATE FOR SCA/CEN

E.O. 12958: N/A

TAGS: PGOV ECON TI

SUBJECT: TAJIKISTAN'S SUGHD REGION HAS HIGH POTENTIAL, BUT LIMITED BY TRADE BARRIERS AND CORRUPTION

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¶1. SUMMARY: The great potential of northern Tajikistan's Sughd Region -- as well as the enormous challenges it faces -- were on full display during PolOff's August 12-13 visit to Khujand, Istaravshan and Konibodom. The region's reputation for economic dynamism and entrepreneurship appeared justified by the high level of commercial activity. In addition, PolOff met with an impressive youth activist committed to promoting democracy and justice in his country. However, it was also clear that several serious roadblocks will continue to limit the region's economic and political development. These include such common problems as power shortages, poor relations with Uzbekistan, and corruption, as well as uniquely local issues such as the threat to agricultural production caused by water seepage from Sughd's Kairokkum Lake. END SUMMARY.

¶2. Ten kilometers east of Khujand, PolOff met with Rafik Sattorov, chairman of "Sharbati Kistakuz," a fruit processing plant producing everything from tomato sauce to apricot juice. The factory is reportedly Tajikistan's oldest, and employs 600 workers on a seasonal basis. Sattorov was proud of the success he had achieved, and enthusiastic about his plans for the future. He intends to substitute durable "tetrapacking" in place of the glass bottles currently used, to facilitate export to Russia and Kazakhstan. Moreover, he has signed a memorandum of understanding with a Chinese company to buy equipment for an entirely new facility that will produce high quality window glass for the domestic market at a fraction of the current price.

¶3. The same energy symbolized by Sattorov in the business sector was evident during PolOff's meetings with local civil society leaders. Abdusamad Sultonov, executive director of the Social Institute Youth and Civilization (SIYC) -- a recipient of U.S. Democracy Commission funding -- spoke fervently about a number of projects his organization has run over the past year with the goal of increasing youth participation in public life. For example, SIYC ran an advocacy campaign prior to the November 2006 elections, publicizing the legal right of Tajikistan's citizens to obtain demonstration permits. The group also runs a resource center providing training in human rights defense to lawyers, journalists, and aspiring politicians, and led a recent campaign in support of a young local judge, who was removed from his job and arrested -- apparently for purely political reasons. This effort included five articles published in regional and

national newspapers which, while not resulting in the judge's reinstatement, at least secured his freedom.

¶4. A discussion of economic issues with Istaravshan Deputy Chairman Dilovar Azimov not only underscored the disastrous economic impact of the Soviet Union's collapse and years of civil war, but also highlighted the local government and business community's ability to make the most of a bad situation. Although Istaravshan's once thriving tourism industry has all but collapsed and the city's four carpet factories are closed, the news was not all bad: a food processing facility is now exporting its products to Kazakhstan, Russia, and Belarus; and two local wineries have benefited from a significant rise in demand from Russia following that country's ban on the import of Georgian wine. Azimov also noted that favorable tax policies have attracted a large number of businesses to the city. Thus, rather than merely seeking to revive Soviet-era industry, Istaravshan is aggressively pursuing new avenues of growth. At the same time, however, chronic power shortages continue to limit economic development, as do Tajikistan's poor relations with Uzbekistan. For example, Istaravshan's wine and mineral water producers (including "Obi Zulol," a recipient of significant U.S. and other foreign investment) cannot access Uzbekistan's 30 million potential customers due to trade restrictions.

¶5. Konibodom Deputy Chairman Rustam Qodirov described an even more serious economic (and environmental) threat. Water seepage from nearby Kairokkum Lake has dramatically raised the water table and soil salinity levels, lowering crop yields. Without corrective action, the outcome could be disastrous for the area's predominantly agricultural economy. Yet Qodirov estimated that repair of the Soviet-era water pumps designed to protect lands surrounding Kairokkum from seepage could cost as much as \$8.4 million. The local government does not have the resources to address a problem of this magnitude, and Qodirov was not confident that he would be able to secure funding from the central government.

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¶6. Ne'matulloh Mirsaidov and Bobojon Ikromov, director and editor of Varorud Newspaper -- an organization with a reputation for independence and a willingness to criticize the authorities -- emphasized that corruption is another factor restricting economic development in Sughd. The men spoke of the difficulties of starting a business when there are 58 inspection agencies demanding bribes. They also asserted that the central government's ongoing anti-corruption drive is nothing more than an excuse to target independent business and political interests that might pose a threat to President Rahmon, including the 2006 dismissal of Sughd's powerful former governor Qasim Qasimov and the ongoing criminal investigation of former Sughd legislator Nizomkhon Juraev. In Sughd -- which is geographically separated from southern Tajikistan by high mountains, and whose elites for decades ruled the Soviet Republic of Tajikistan -- these actions are causing unease among independent-minded businessmen, and prompting them to protect their money by sending it overseas, rather than investing it at home.

¶7. COMMENT: Even for a region with as much energy and human capital as Sughd, the impediments to operating a business or promoting civil society are daunting. Nevertheless, if government interference is kept in check, there is strong reason to hope that the population will make steady progress towards economic development and political freedom. On the other hand, if Dushanbe continues to tighten its grip over political and economic life in the region, Sughd -- along with the rest of Tajikistan -- is likely to suffer as a result. END COMMENT.
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